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Stocks Anyone?

As the bull-market rally in stocks enters its second year, the gains thus far have been impressive. The U.S. stock market is up 72% from its March 2009 low—the fastest start to a bull market rally since the 1930s. Mutual fund investors do not appear to be swayed. While they plunked a

record \$385 billion into bond mutual funds during the past year, the additional money into stocks has barely reached a trickle. If investor skepticism ever becomes enthusiasm, there's plenty of money on the sidelines that can boost stock prices further.



In the first quarter, the S&P 500 gained 5.39% to finish at 1169.43. For the quarter, eight of the ten sectors were positive, with the Industrials sector gaining 12.45% and the Financials sector up 11.82%. Telecommunications (-5.66%) and Utilities (-4.61%) remained in the red for the quarter. Despite a strong rebound, about one out of every four stocks in the S&P 500 declined in the quarter.

TOTAL YEAR-TO-DATE RETURN THROUGH MARCH 31, 2010

NASDAQ
5.68%

S&P 500
5.39%

Dow Jones
4.82%

Mutual Funds

Small-cap funds outpaced both mid-cap funds and large-cap funds. Value style funds dominated both growth and “blend” style categories. Seven of the nine Morningstar domestic categories outperformed the S&P 500 benchmark.



Mutual Fund Scoreboard

DOMESTIC FUND CATEGORY	1st QTR	YTD 03/31/10
Large Value	5.61%	5.61%
Large Blend	5.07%	5.07%
Large Growth	4.41%	4.41%
Mid-Cap Value	8.28%	8.28%
Mid-Cap Blend	7.78%	7.78%
Mid-Cap Growth	6.76%	6.76%
Small Value	9.40%	9.40%
Small Blend	8.18%	8.18%
Small Growth	7.36%	7.36%

Source: Morningstar

International Equities

International funds managed to record meager returns as the strong dollar reduced gains. The U.S. Dollar Index gained 4.14% against six major world currencies in the first quarter. **The MSCI EAFE Index gained only 0.87% (in US dollars).** This stock market index is designed to measure the equity market performance of 21 developed markets (Europe, Australasia, and Far East) excluding the U.S. and Canada. The MSCI Emerging Markets Index rose 2.41%. The MSCI BRIC Index gained 0.84%.



INT'L FUND CATEGORY	1st QTR	YTD 03/31/10
Foreign Large Blend	1.28%	1.28%
MSCI EAFE INDEX	0.87%	0.87%

Source: Morningstar

INVESTMENT REVIEW First Quarter 2010 (Cont.)

Bond Market

As discussed earlier, with short-term interest rates approaching zero, investors have poured \$385 billion dollars into bond funds over the past year. The strengthening U.S. and global economies allowed investors to pursue riskier bonds in search of higher yields. As a result, emerging market and high yield bond funds were top performers last quarter—up 4.26% and 4.63% respectively. U.S. Treasury bonds were among the laggards.



The Barclays Capital Aggregate Bond Index rose 1.78% in the first quarter. The Barclays Capital Muni Bond Index moved higher by 1.25%. The Barclays Capital U.S. Government Index gained 1.11%

Bondholders would prefer that economic growth is strong enough to support taking some credit risk, but not so strong as to push yields up and bond prices down. **A key benchmark is the 10-year U.S. Treasury yield.** It crossed above 4% briefly in April. Rising rates could signify that either the economy is getting stronger (a good reason) or there are not enough buyers for our exploding national debt burden (a bad reason). Higher rates will punish longer term bonds and perhaps derail the stock market.

BOND FUND CATEGORY/ BOND INDEX	1st QTR	YTD 03/31/10
Barclays Capital Aggregate Bond	1.78%	1.78%
Municipal Nat'l Bond—Long	1.48%	1.48%
Municipal Nat'l Bond—Inter.	0.97%	0.97%
Municipal Nat'l Bond—Short	0.44%	0.44%
Barclays Capital Muni Bond	1.25%	1.25%

Source: Morningstar

2010 Outlook

With a profit recovery in full swing, Wall Street has set the bar high. Analysts are forecasting that profits for companies in the S&P 500 Stock Index will soar by an average of 39% in the first quarter, versus the period a year earlier. As first quarter earnings reporting season is now under way, market strategists and investors will be looking closely at the results.

The last three significant pullbacks in the stock market rally began during the last three earnings reporting seasons, or just before them. Each of these sell-offs took stock prices down by at least 5%. The most recent example was the 8% slide in the S&P 500 Stock Index from January 19th to February 8th, at the start of the earnings reporting season for the fourth quarter of 2009.

Even if earnings don't disappoint investors, sales could. Despite a tripling of earnings in the fourth quarter of 2009, quarterly sales per share grew just 1%. Analysts are forecasting sales growth of around 7% in the first quarter of 2010 over the period a year ago. Sales growth is dependent on consumer spending which is dependent on jobs.



If companies can deliver on earnings and sales growth, we expect the S&P 500 to move higher to 1250-1350 during 2010. The bull remains in pretty good shape. Stay tuned.

Thanks for your continued business and confidence.

Randy Ruggaard & Aaron Seil